



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Fiscal Analysis Memorandum

**CONFIDENTIAL**

**Requestor:** Representatives Howard, Setzer, and Szoka  
**Analyst(s):** Jessica Meed and Cara Bridges  
**RE:** Senate Bill 432 (PCS)

### SUMMARY TABLE

FISCAL IMPACT OF S.B.432, V.PCS					
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
DHHS Revenue	-	2,263	2,715	3,168	3,620
Less DHHS Expenditures	135,490	263,533	263,143	259,884	270,226
<b>DHHS General Fund Impact</b>	<b>(135,490)</b>	<b>(261,270)</b>	<b>(260,428)</b>	<b>(256,716)</b>	<b>(266,606)</b>
DOI Revenue	54,400	38,400	38,400	38,400	38,400
Less DOI Expenditures	86,307	86,307	86,307	86,307	86,307
<b>DOI General Fund Impact</b>	<b>(31,907)</b>	<b>(47,907)</b>	<b>(47,907)</b>	<b>(47,907)</b>	<b>(47,907)</b>
<b>NET STATE IMPACT</b>	<b>(\$167,397)</b>	<b>(\$309,177)</b>	<b>(\$308,335)</b>	<b>(\$304,623)</b>	<b>(\$314,513)</b>
<b>STATE POSITIONS</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>
<b>TECHNICAL CONSIDERATIONS:</b>	See Technical Considerations Section				

### FISCAL IMPACT SUMMARY

The bill establishes a licensure process for birth centers, including the creation of the North Carolina Birth Center Commission and the establishment of annual licensing fees for birth centers. The estimated General Fund impact of implementing a licensure process in accordance with the PCS is approximately \$135,000-\$267,000 a year. The Department of Health and Human Services (DHHS) will require two new positions for implementation, totaling \$209,336 in FY 2020-21, the first full year of implementation.

This bill also creates licensing requirements for pharmacy benefits managers. The net revenues to the State for new licensing fees total \$54,400 in the first year of implementation and \$38,400



annually thereafter. The Department of Insurance will require one new position for implementation, totaling \$86,307 annually.

## **FISCAL ANALYSIS**

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### **Part I**

Part I of this bill establishes a licensure process for birth centers. DHHS, Division of Health Service Regulation (DHSR) has primary responsibility for implementing the requirements of this portion of the bill. The following analysis was conducted using data provided by DHSR.

There are four accredited birth centers currently operating in North Carolina. DHSR estimates that one new birth center will apply for licensure each year. Under this assumption, eight birth centers would be operating in North Carolina by the end of FY 2023-24.

This bill establishes an annual license fee of \$400 + \$17.50/ birthing room. DHSR reports that the average size of a birth center is 5,000 square feet, and contains an average of three birthing rooms. This analysis assumes that future birth centers will be of a similar size. This analysis assumes that rules will be in place to charge license fees during FY 2020-21.

	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>
Number of Birth Centers	4	5	6	7	8
Fee for a Three-Suite Birth Center \$400 +17.50/room	\$0	\$452.50	\$452.50	\$452.50	\$452.50
Projected Receipts	\$0	\$2,263	\$2,715	\$3,168	\$3,620

### **North Carolina Birth Center Commission**

The bill creates a North Carolina Birth Center Commission, composed of seven members. DHSR anticipates that the Commission will need to meet 12 times a year for the first 24 months, to establish rules. Starting halfway through year three, the Commission will meet quarterly. Commission costs include per-diem and administrative support.

	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>
Commission Cost	\$16,706	\$33,411	\$22,274	\$11,137	\$11,137

### **Staff Requirements**

DHSR reports that two FTEs are required to develop and implement a birth center licensing process. The first FTE is a Nursing Consultant II, with significant experience in labor and delivery, who would be located in DHSR's Acute and Home Care Licensure and Certification Section. The second FTE is an Engineer II, located in DHSR's Construction Section. These two FTE will have the subject-matter expertise to lead the inspection process. A full inspection team includes three clinical experts from the Acute Care section, and two engineering experts from the Construction section. DHSR will use existing staff members to complete the remaining slots on the inspection team.

The two FTEs will initially work on developing the licensure application and other forms associated with this program, as well as help promulgate the applicable regulations for the licensing of birth centers. Once the regulation and application process has been established, the two FTEs will review applications, conduct licensing inspections, and investigate complaints. This analysis assumes that the FTEs start in January 2020.

	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>
2 FTE	\$99,654	\$209,336	\$217,576	\$222,340	\$229,569

### Travel Cost and Per-Diem

DHSR made the following assumptions in determining the number of site visits that would be required.

- Each site will require an annual inspection by a full inspection team (three acute care staff, and two construction staff). Most sites will require a follow-up visit to resolve discrepancies. Some sites may require more than one follow-up visit.
- There will be an average of two complaints per facility. Complaints will require an on-site investigation.

<b>Travel Reason / Per Facility</b>	<b># of</b>	<b>Day</b>	<b>Night</b>
Initial Site Visit (Nurse Consultant II)	3	3	2
Initial Site Visit (Engineer II)	2	2	1
Follow-up Visits (Nurse Consultant II)	2	1	1
Follow-up Visits (Engineer II)	1	1	1
Complaint (Nurse Consultant II)	2	3	2
Complaint (Engineer II)	1	1	1

This analysis assumes that on-site investigations for complaints at existing facilities will begin in FY 2019-20. Annual inspections will begin in FY 2020-21, when DHSR begins taking applications for birth center licensure.

### Operating Cost

Operating cost will include travel (inspections and investigations), office equipment, supplies, and research materials.

	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>
Operating Cost	\$19,131	\$20,786	\$23,293	\$26,406	\$29,521

## **Part II**

Part II of this bill requires pharmacy benefits managers (PBMs) to be licensed by the Department of Insurance (DOI). DOI has the authority to inspect records of PBMs and may refuse to issue a

license under certain circumstances. DOI will also oversee examinations of PBMs on a schedule determined by the agency and PBMs will pay for the cost of those examinations. DOI is responsible for handling complaints against PBMs and may suspend, revoke, or refuse to renew the license of a PBM.

This bill will increase revenues to the State. PBMs are required to pay an initial license fee of \$2,000 and an annual renewal fee of \$1,500. There are currently 32 licensed companies operating in North Carolina that will likely register as a PBM under this bill. Assuming this number remains constant, the total revenues to the State for licensing will be \$64,000 in the first year of implementation and \$48,000 annually thereafter. However, these 32 PBMs are currently licensed by DOI as Third Party Administrators (TPAs) and pay \$300 per year for licensing. DOI estimates that all 32 companies will switch registration status from TPA to PBM if this bill is implemented. The chart below shows the estimated revenues to the State in the initial year of implementation and subsequent years. The net revenue to the State is estimated at \$54,400 in the first year and \$38,400 annually beginning in year two.

License Type	Year One Impact	Year Two (Recurring) Impact
Pharmacy Benefits Manager	\$64,000	\$48,000
- Third Party Administrator	\$9,600	\$9,600
<b>Net Revenue Impact</b>	<b>\$54,400</b>	<b>\$38,400</b>

To implement the bill, DOI will require a new Insurance Regulatory Analyst I. This position will review all required documentation for the PBM licensing process, track the licensing status of PBMs, receive and track complaints, and administer the ongoing examination process of the PBMs. If hired at the midpoint of the salary range (GN12), the recurring salary and benefits expenditures will total \$86,307.

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## TECHNICAL CONSIDERATIONS

DHSR reports that the Acute Care Section would require an additional FTE if the number of birthing centers grows beyond 9 facilities. DHSR also anticipates that the Construction Section would require an additional FTE if the number of birthing centers grows beyond 13 facilities.

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## DATA SOURCES

NC Department of Health and Human Services, Division of Health Services Regulation; NC Department of Insurance

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## FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal

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